

CITY OF UNDERWOOD
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2012

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CITY OF UNDERWOOD

OFFICIALS

(Before January 2012)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dennis Bardsley	Mayor	January 2012
Robert Dose	Mayor Pro-Tem	January 2012
Edward Freuck	Council Member	January 2014
Jim Pingel	Council Member	January 2014
Todd Erwin	Council Member	January 2012
Rhonda Johnson	Council Member	January 2012
Kelly Groskurth	City Clerk	Indefinite
Lea Voss	City Treasurer	Appointed yearly
Matthew Woods	City Attorney	Indefinite

(After January 2012)

Dennis Bardsley	Mayor	January 2014
Robert Dose	Mayor Pro-Tem	January 2016
Edward Freuck	Council Member	January 2014
Jim Pingel	Council Member	January 2014
Todd Erwin	Council Member	January 2016
David Powell	Council Member	January 2016
Kelly Groskurth	City Clerk	Indefinite
Lea Voss	City Treasurer	Appointed yearly
Matthew Woods	City Attorney	Indefinite

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

August 29, 2012

Independent Auditor's Report

Lonnie G. Muxfeldt
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To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Underwood's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued . . .

August 29, 2012

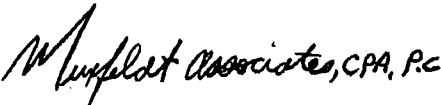
Page Two

To the Honorable Mayor and
Members of the City Council:

In accordance with *Government Auditing Standards*, I have also issued my report dated August 29, 2012 on my consideration of the City of Underwood's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Underwood's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other auditing procedures applied in my audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Underwood's basic financials statements. Management's Discussion and Analysis and the budgetary comparison information on pages 6 through 11 and 31 through 33 are presented for purposes of additional analysis and are not a required part of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.


M. J. J. Associates, CPA, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Underwood provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 6.6%, or approximately \$50,000, from fiscal year 2011 to fiscal year 2012. Grants, contributions and restricted interest increased approximately \$29,000.

Disbursements of the City's governmental activities decreased 13%, or approximately \$106,000 in fiscal year 2012 from fiscal year 2011. Capital projects, public safety and debt service disbursements decreased approximately \$83,000, \$74,000 and \$13,000, respectively. Public works, community and economic development and general government disbursements increased approximately \$32,000, \$28,000, and \$3,600, respectively.

The City's total cash basis net assets increased 37% or approximately \$297,500, from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$65,000 and the assets of the business type activities increased approximately \$232,000.

USING THIS REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required supplementary information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the sanitary sewer system and garbage collection. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as the Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Funds, such as the Sewer Improvement Project. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Sewer and Garbage Funds. The Sewer Fund is considered a major fund of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from approximately \$601,000 to \$666,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year Ended June 30, 2012	Year Ended June 30, 2011
Receipts:		
Program receipts:		
Charges for services	\$ 30,771	\$ 40,726
Operating grants, contributions and restricted interest	182,097	178,430
Capital grants, contributions and restricted interest	34,963	-0-
General receipts:		
Property tax	313,228	304,106
Tax increment financing	132,638	138,597
Local option sales tax	104,829	83,453
Unrestricted investment earnings	-0-	-0-
Miscellaneous	673	855
Sale of property	-0-	3,275
Total receipts	799,199	749,442
Disbursements:		
Public safety	85,024	159,372
Public works	169,873	137,970
Culture and recreation	24,391	22,980
Community and economic development	155,806	128,010
General government	147,998	144,403
Debt service	124,397	137,599
Capital projects	-0-	82,859
Total disbursements	707,489	813,193
Change in cash basis net assets before transfers	91,710	(63,751)
Transfers, net	(26,507)	(20,863)
Change in cash basis net assets	65,203	(84,614)
Cash basis net assets, beginning of year	601,241	685,855
Cash basis net assets, end of year	\$ 666,444	\$ 601,241

The City's total receipts for governmental activities increased 6.6%, or approximately \$50,000. The total cost of all programs and services decreased approximately \$106,000, or 13%, with no new programs added this year.

Increases to governmental receipts included \$34,963 in capital grants, contributions and restricted interest, approximately \$21,000 in local optional sales tax and approximately \$11,000 in property taxes.

The cost of all governmental activities this year was approximately \$800,000 compared to approximately \$1.2 million last year. However, as shown in the Statement of Activities and Net Assets on pages 13 and 14, the amount taxpayers ultimately financed for these activities was only \$459,658 because some of the cost was paid by those directly benefited from the programs (\$30,711) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$217,060). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2012 from approximately \$219,000 to \$248,000, principally due to receiving grant proceeds for the 2nd Street capital project.

Changes in Cash Basis Net Assets of Business Type Activities			
	Year Ended June 30,		Year Ended June 30,
	2012		2011
Receipts:			
Program receipts:			
Charges for services and sales:			
Sewer	\$	107,218	\$ 114,310
Garbage		40,108	40,360
Operating grants, contributions and restricted interest		-0-	-0-
Capital grants, contributions And restricted interest		90,795	109,113
General receipts:			
Miscellaneous			2,450
Restricted interest		83	66
Net note proceeds		193,000	107,000
Total receipts		<u>431,204</u>	<u>373,299</u>
Disbursements:			
Sewer		190,191	435,461
Garbage		35,274	30,644
Total disbursements		<u>225,465</u>	<u>466,105</u>
Change in cash basis net assets before transfers		205,739	(92,806)
Transfers, net		<u>26,507</u>	<u>20,863</u>
Change in cash basis net assets		232,246	(71,943)
Cash basis net assets, beginning of year		<u>212,324</u>	<u>284,267</u>
Cash basis net assets, end of year	\$	<u>444,570</u>	\$ <u>212,324</u>

Total business type activities receipts for the fiscal year were approximately \$431,000 compared to approximately \$373,000 last year. The cash balance increased approximately \$232,000 from the prior year primarily due to net sewer revenue note proceeds.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Underwood completed the year, its governmental funds reported a combined fund balance of \$666,444, an increase of \$65,203 from last year's total of \$601,241.

The General Fund cash balance decreased \$2,598 from the prior year to \$336,430 at year end. City hall received a facelift at a cost of approximately \$20,000 and computer equipment received an upgrade at an approximate cost \$9,500.

The Special Revenue Fund, Road Use Tax Fund cash balance increased \$44,174 to \$212,245. The majority of this increase is attributable to a transfer of grant revenue from the 2nd Street Improvement Capital Project Fund. The City Street Department hired a second full time person and purchased tar and seal coating machines to bring more street maintenance in house. The cost savings were quickly apparent.

The Special Revenue Fund, Urban Renewal Tax Increment Fund was established to account for the Fieldcrest Addition, the Eagle Landing Subdivision and the City's Housing Rehabilitation Program. City Council approved an amendment to the City's Urban Renewal Plan putting the Links Snacks facility in an urban renewal area. The City also signed a tax incremental finance agreement with Links Snacks, Inc. The fund's cash balance increased by \$24,627 to \$104,999 at year end.

The Debt Service Fund cash balance remained at \$4,551 from the prior year. Principal and interest payments were \$124,397, tax receipts were \$87,084, the general fund transferred in \$37,313.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise Fund, Sewer Fund cash balance increased \$227,412 to \$408,036, primarily due to net sewer revenue note proceeds of \$193,000. Sewer improvements were completed during the year

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The first amendment was approved on August 9, 2011 and increased budgeted receipts for a grant and increased disbursements for sewer improvement in the business type activities. The second amendment was approved on January 11, 2012 and increased budgeted disbursements for public safety and community and economic development functions. Budgeted disbursements did not exceed amounts budgeted for the year ended June 30, 2012.

The City's receipts were approximately \$200,000 more than budgeted.

The City's disbursements were approximately \$398,000 less than budgeted.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$786,758 in bonds and notes outstanding, compared to \$710,950 last year, as shown below.

Outstanding Debt at Year-End			
	Year Ended June 30, 2012		Year Ended June 30, 2011
General obligation notes	\$ 501,758	\$	603,950
Sewer revenue notes	285,000		107,000
Total	\$ 786,758	\$	710,950

Debt was increased by \$193,000, from final proceeds of the sewer revenue note. Outstanding principal was reduced by \$117,193. Interest costs for the fiscal year were \$28,825.

The constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$501,758 is significantly below its constitutional debt limit of approximately \$2.3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Underwood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. One of those factors is the economy. As a bedroom community of a major metropolitan area, housing continues to move as new families take residence in the City.

These factors were taken into account when adopting the budget for fiscal year 2012. The mill levy decreased from \$13,976.97 to \$13,941.84, largely due to increased valuations. Disbursements are expected to decrease approximately \$396,000, primarily due to completion of sewer improvements in the prior year.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$48,500 by the close of fiscal year 2013.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kelly Groskurth, City Clerk, at 218 2nd Street, Underwood, Iowa 51576.

BASIC FINANCIAL STATEMENTS

CITY OF UNDERWOOD
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

			Program Receipts	
	Disbursements	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 85,024	\$ 24,544	\$ 87,068	\$ -0-
Public works	169,873	-0-	94,266	-0-
Cultures and recreation	24,391	600	-0-	-0-
Community and economic development	155,806	-0-	112	-0-
General government	147,998	5,627	651	-0-
Debt service	124,397	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	34,963
Total governmental activities	<u>707,489</u>	<u>30,771</u>	<u>182,097</u>	<u>34,963</u>
Business type activities:				
Sewer	190,191	107,218	-0-	90,795
Garbage	35,274	40,108	-0-	-0-
Total business type activities	<u>225,465</u>	<u>147,326</u>	<u>-0-</u>	<u>90,795</u>
Total	\$ <u>932,954</u>	\$ <u>178,097</u>	\$ <u>182,097</u>	\$ <u>125,758</u>
Property taxes levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted investment earnings				
Miscellaneous				
Note proceeds				
Transfers				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets, beginning of year				
Cash basis net assets, end of year				
Cash basis net assets				
Expendable:				
Streets				
Urban renewal				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

EXHIBIT A

<u>Net (Disbursements), Receipts and Changes in Net Assets</u>					
<u>Governmental</u>		<u>Business Type</u>		<u>Total</u>	
<u>Activities</u>		<u>Activities</u>			
\$	26,588	\$	-0-	\$	26,588
	(75,607)		-0-		(75,607)
	(23,791)		-0-		(23,791)
	(155,694)		-0-		(155,694)
	(141,720)		-0-		(141,720)
	(124,397)		-0-		(124,397)
	34,963		-0-		34,963
	<u>(459,658)</u>		<u>-0-</u>		<u>(459,658)</u>
	-0-		7,822		7,822
	-0-		4,834		4,834
	<u>-0-</u>		<u>12,656</u>		<u>12,656</u>
	(459,658)		12,656		(447,002)
	226,144		-0-		226,144
	87,084		-0-		87,084
	132,638		-0-		132,638
	104,829		-0-		104,829
	-0-		83		83
	673		-0-		673
	-0-		193,000		193,000
	(26,507)		26,507		-0-
	<u>524,861</u>		<u>219,590</u>		<u>744,451</u>
	65,203		232,246		297,449
	<u>601,241</u>		<u>212,324</u>		<u>813,565</u>
\$	<u>666,444</u>	\$	<u>444,570</u>	\$	<u>1,111,014</u>
\$	212,245	\$	-0-	\$	212,245
	104,999		-0-		104,999
	4,551		-0-		4,551
	8,219		-0-		8,219
	336,430		444,570		781,000
\$	<u>666,444</u>	\$	<u>444,570</u>	\$	<u>1,111,014</u>

See notes to financial statements.

CITY OF UNDERWOOD

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 173,461	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	132,638
Other city tax	-0-	-0-	-0-
Licenses and permits	4,292	-0-	-0-
Use of money and property	667	-0-	111
Intergovernmental	86,051	89,661	-0-
Charges for services	21,858	-0-	-0-
Special assessments	631	-0-	-0-
Miscellaneous	5,665	4,605	-0-
Total receipts	<u>292,625</u>	<u>94,266</u>	<u>132,749</u>
Disbursements:			
Operating:			
Public safety	83,529	-0-	-0-
Public works	-0-	163,377	-0-
Culture and recreation	18,024	-0-	-0-
Community and economic development	47,684	-0-	108,122
General government	108,198	-0-	-0-
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total disbursements	<u>257,435</u>	<u>163,377</u>	<u>108,122</u>
Excess (deficiency) of receipts over (under) disbursements	35,190	(69,111)	24,627
Other financing sources (uses):			
Sale of assets	-0-	-0-	-0-
Note proceeds	-0-	-0-	-0-
Operating transfers in	-0-	113,285	-0-
Operating transfers out	(37,788)	-0-	-0-
Total other financing sources (uses)	<u>(37,788)</u>	<u>113,285</u>	<u>-0-</u>
Net change in cash balances	(2,598)	44,174	24,627
Cash balances, beginning of year	<u>339,028</u>	<u>168,071</u>	<u>80,372</u>
Cash balances, end of year	\$ <u>336,430</u>	\$ <u>212,245</u>	\$ <u>104,999</u>
Cash Basis Fund Balances			
Restricted for:			
Urban renewal purposes	\$ -0-	\$ -0-	\$ 104,999
Debt service	-0-	-0-	-0-
Streets	-0-	212,245	-0-
Other purposes	-0-	-0-	-0-
Unassigned	336,430	-0-	-0-
Total cash basis fund balances	\$ <u>336,430</u>	\$ <u>212,245</u>	\$ <u>104,999</u>

See notes to financial statements.

EXHIBIT B

	Debt Service	Other Non-major Governmental Funds	Total
\$	87,084	\$ 52,683	\$ 313,228
	-0-	-0-	132,638
	-0-	104,829	104,829
	-0-	-0-	4,292
	-0-	-0-	778
	-0-	34,963	210,675
	-0-	-0-	21,858
	-0-	-0-	631
	-0-	-0-	10,270
	<u>87,084</u>	<u>192,475</u>	<u>799,199</u>
	-0-	1,495	85,024
	-0-	6,496	169,873
	-0-	6,367	24,391
	-0-	-0-	155,806
	-0-	39,800	147,998
	124,397	-0-	124,397
	-0-	-0-	-0-
	<u>124,397</u>	<u>54,158</u>	<u>707,489</u>
	(37,313)	138,317	91,710
	-0-	-0-	-0-
	-0-	-0-	-0-
	37,313	475	151,073
	-0-	(139,792)	(177,580)
	<u>37,313</u>	<u>(139,317)</u>	<u>(26,507)</u>
	-0-	(1,000)	65,203
	<u>4,551</u>	<u>9,219</u>	<u>601,241</u>
\$	<u>4,551</u>	\$ <u>8,219</u>	\$ <u>666,444</u>
\$	-0-	\$ -0-	\$ 104,999
	4,551	-0-	4,551
	-0-	-0-	212,245
	-0-	8,219	8,219
	-0-	-0-	336,430
\$	<u>4,551</u>	\$ <u>8,219</u>	\$ <u>666,444</u>

CITY OF UNDERWOOD

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise Funds		
	Sewer	Garbage	Total
Operating receipts:			
Charges for services	\$ 107,048	\$ 39,970	\$ 147,018
Special assessment	169	118	287
Miscellaneous	1	20	21
Total receipts	107,218	40,108	147,326
Operating disbursements:			
Business type activities	168,570	35,274	203,844
Total disbursements	168,570	35,274	203,844
Operating income	(61,352)	4,834	(56,518)
Non-operating receipts (disbursements):			
Interest	83	-0-	83
Miscellaneous	90,795	-0-	90,795
Debt service	(21,621)	-0-	(21,621)
Total non-operating receipts (disbursements)	69,257	-0-	69,257
Excess of receipts over disbursements	7,905	4,834	12,739
Other financing sources (uses):			
Net note proceeds	193,000	-0-	193,000
Operating transfer in	26,507	-0-	26,507
Operating transfer out	-0-	-0-	-0-
Other financing sources (uses)	219,507	-0-	219,507
Net change in cash balance	227,412	4,834	232,246
Cash balances, beginning of year	180,624	31,700	212,324
Cash balances, end of year	\$ 408,036	\$ 36,534	\$ 444,570
Cash Basis Fund Balances			
Unrestricted	\$ 408,036	\$ 36,534	\$ 444,570
Total cash basis fund balances	\$ 408,036	\$ 36,534	\$ 444,570

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(1) Summary of Significant Accounting Policies

The City of Underwood is a political subdivision of the State of Iowa and located in Pottawattamie County. It was first incorporated in 1902 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general administrative services. The City also provides sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Underwood has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board and commissions: Pottawattamie County Assessor's Conference Board, City Assessor's Conference Board and Pottawattamie County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges from services.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Continued

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in the following categories:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provision or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include: 1) charges to customers or applicants whose purchase, or use directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(11) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Continued

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the city's general long-term debt.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Underwood maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. As of June 30, 2012, disbursements did not exceed amounts budgeted.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(1) Summary of Significant Accounting Policies (Continued)

E. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

(2) Cash and Pooled Investments

The City's deposits in bank at June 30, 2012, were covered entirely by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash on hand, cash in bank and certificates of deposit, held at two local institutions in the City's name totaled \$1,110,914 as of June 30, 2012.

Interest Rate Risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes	
	Principal	Interest
2012	\$ 215,149	\$ 30,779
2013	93,956	18,914
2014	71,056	15,746
2015	77,100	13,176
2016	78,689	10,155
2017	55,000	7,350
2018	60,000	5,040
2019	60,000	2,520
Total	\$ 710,950	\$ 103,680

General Obligation Street Improvement Note, 2003

On June 16, 2003, the City financed the 2nd Avenue street paving project through a local bank. The \$150,000 note bears interest at 3.86%, requires 19 semiannual installment of \$9,111, and matures June 16, 2013.

General Obligation Fire Rescue Vehicle Note, 2003

On February 28, 2003, the City financed the purchase of a fire rescue vehicle with a local bank. The \$100,000 note bears interest at 4.27%, requires semiannual installments of \$6,155, and matures January 1, 2013.

General Obligation Fire Equipment Note, 2007

On June 21, 2007, the City financed the purchase of a pumper truck with a local bank. The \$174,000 note bears interest at 4.90%, requires semiannual installments of \$12,038, and matures June 1, 2016.

General Obligation Corporate Purpose Bonds, Series 2009

On April 15, 2009, the City issued bonds to finance street repairs to 3rd Street and the purchase of an ambulance. The \$495,000 bonds bear interest ranging from 2.25% to 4.20%, requires semiannual installments of interest and annual retirements of bonds (approximately \$65,000 annually), and matures June 1, 2019.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(3) Bonds and Notes Payable (Continued)

Sewer Revenue Note

On January 31, 2012, the City issued a \$300,000 sewer revenue note with a local bank. The note bears interest at 3.15%, required semi annual principal and interest payments, and matures June 1, 2022.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$300,000 of a sewer revenue note issued January 31, 2012. Proceeds from the note provided financing for sewer improvements. The note is payable solely from sewer customer net receipts and are payable through 2022.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$8,895, \$6,649 and \$6,599, respectively, equal to the required contributions for each year.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides a medical/prescription drug benefits for retirees and their spouses. There are 3 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums of the City and plan members are \$1,205 for family coverage. For the year ended June 30, 2012, the City contributed \$28,784 and the plan members eligible for benefits contributed \$7,957.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time termination payments payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u> <u>June 30, 201</u>
Vacation	\$ 6,261
Comp time	3,031
	<u>\$ 9,292</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(7) Related Party Transactions

The City had no business transactions between the City and City officials during the year ended June 30, 2012.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012, is as follows:

Transfer to	Transfer from	Amount
Special Revenue - Road Use	Special Revenue - Local Option	\$ 78,322
Enterprise - Sewer	Special Revenue - Local Option	26,507
Special Revenue - Tort	General	475
Debt Service	General Fund	37,313
Special Revenue - Road Use	Capital Projects - 2 nd Street	34,963
Total		<u>\$ 177,580</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claim expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(9) Risk Management (Continued)

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2012 were \$20,630.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage of \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all liability claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(9) Risk Management (Continued)

The City also carries workers' compensation insurance purchased from the Iowa Municipalities Workers' Compensation Association, IMWCA. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Urban Renewal Tax Increment Financing Development Agreements

Shiloh Industries Agreement

On December 10, 2003, the City entered into a development agreement with McKee Contracting. The developer agreed to construct residential infrastructure such as storm sewers, pavement, sanitary sewers, hydrants, and streetlights in the Fieldcrest Urban Renewal Area of the City. The City voided the original agreement and entered into a new agreement with Shiloh Industries. The developer requested and the City agreed to make economic development tax increment payments to the developer each year during the term of the agreement. For the year ended June 30, 2012, the City rebated \$25,703 to Shiloh Industries. The City certifies to the County Auditor by December 1 of each year the following year's tax increment financing request. Per terms of the agreement and in accordance with provisions of Section 403.22 of the Code of Iowa, the City retains 35.1% of the incremental tax receipts for the purpose of providing assistance to low and moderate income households. For the year ended June 30, 2012, the City received \$39,408 of tax increment financing receipts and retained the required percentage per terms of the agreement.

Eagle Landing Development Agreement

On January 9, 2001, the City entered into a development agreement with HLH Development, L.C. The developer agreed to construct infrastructure within the City's Urban Renewal Area South legally described as Eagle Landing Subdivision for the purpose of constructing housing units. In exchange, the City agreed to rebate to the developer semi-annual economic development tax increment payments based upon eligible costs of approximately \$300,785 plus interest of 6% per annum calculated from December 1, 2000. For the year ended June 30, 2012, the City rebated \$75,870 incremental taxes to HLH Development, L.C. Per terms of the agreement and in accordance with provisions of Section 403.22 of the Code of Iowa the City retains 20% of the incremental tax receipts to provide assistance related to housing for low and moderate income families. For the year ended June 30, 2012, the City received \$93,230 of tax increment financing receipts and retained the required percentage per terms of the agreement.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(11) Commitments

The City renewed an agreement for law enforcement services with Pottawattamie County. The fee for the year ended June 30, 2012 was \$12,040.

The City has extended an agreement with M & K Tree Service, Inc. for solid waste collection through 2015 at a cost of \$9.75 (with annual optional incremental fuel increases) per month per household or commercial unit. City Council approved a 10 cent monthly incremental fuel increase on April 10, 2012.

(12) Grants

On May 11, 2010, the City was awarded a Community Improvements To Increase Economic Stability (CITIES) Grant from the Pottawattamie County Board of Supervisors. The \$199,908 grant required a 50% match from the City and financed in part the sewer rehabilitation project. The grant expired October 31, 2011. Grant funds of \$90,795 and \$109,113 were received for the years ended June 30, 2012 and 2011, respectively.

On May 10, 2011, the City was awarded a Community Improvements To Increase Economic Stability (CITIES) Grant from the Pottawattamie County Board of Supervisors. The \$34,963 grant required a 50% match from the City and financed in part resurfacing and storm water improvements to 2nd Street. The grant expired June 30, 2011. Grant fund of \$34,963 were received in the year ended June 30, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF UNDERWOOD

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 313,228	\$ -0-
Tax increment financing	132,638	-0-
Other city tax	104,829	-0-
Licenses and permits	4,292	-0-
Use of money and permits	778	83
Intergovernmental	210,675	90,795
Charges for services	21,858	147,326
Special assessments	631	-0-
Miscellaneous	10,270	-0-
Total receipts	<u>799,199</u>	<u>238,204</u>
Disbursements:		
Public safety	85,024	-0-
Public works	169,873	-0-
Health and social services	-0-	-0-
Culture and recreation	24,391	-0-
Community and economic development	155,806	-0-
General government	147,998	-0-
Debt service	124,397	-0-
Capital projects	-0-	-0-
Business type	-0-	225,465
Total disbursements	<u>707,489</u>	<u>225,465</u>
Excess (deficiency) of receipts over (under) disbursements	91,710	12,739
Other financing sources, net	<u>(26,507)</u>	<u>219,507</u>
Excess (deficiency) of receipts and other financing sources	65,203	232,246
Balance beginning of year	<u>601,241</u>	<u>212,324</u>
Balance end of year	\$ <u>666,444</u>	\$ <u>444,570</u>

See Accompanying Independent Auditor's Report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
\$ 313,228	\$ 303,786	\$ 303,786	\$ 9,442
132,638	148,412	148,412	(15,774)
104,829	89,498	89,498	15,331
4,292	4,375	4,375	(83)
861	1,130	1,130	(269)
301,470	171,801	296,564	4,906
169,184	144,360	144,360	24,824
631	-0-	-0-	631
10,270	1,500	1,500	8,770
<u>1,037,403</u>	<u>864,862</u>	<u>989,625</u>	<u>47,778</u>
85,024	84,418	104,418	19,394
169,873	138,397	178,397	8,524
-0-	-0-	-0-	-0-
24,391	31,502	31,502	7,111
155,806	193,750	233,750	77,944
147,998	154,825	154,825	6,827
124,397	130,559	130,559	6,162
-0-	-0-	-0-	-0-
225,465	147,142	527,142	301,677
<u>932,954</u>	<u>880,593</u>	<u>1,360,593</u>	<u>427,639</u>
104,449	(15,731)	(370,968)	475,417
<u>193,000</u>	<u>-0-</u>	<u>300,000</u>	<u>(107,000)</u>
297,449	(15,731)	(70,968)	368,417
<u>813,565</u>	<u>813,565</u>	<u>813,565</u>	<u>-0-</u>
\$ <u>1,111,014</u>	\$ <u>797,834</u>	\$ <u>742,597</u>	\$ <u>368,417</u>

CITY OF UNDERWOOD

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2012

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted receipts by \$124,763 and disbursements by \$480,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements did not exceed amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

CITY OF UNDERWOOD

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>Special Revenue</u>	
	<u>Emergency</u>	<u>Employee Benefits</u>
Receipts:		
Property tax	\$ 53	\$ 32,506
Other city tax	-0-	-0-
Intergovernmental	-0-	-0-
Total receipts	<u>53</u>	<u>32,506</u>
Disbursements:		
Operating:		
Public safety	-0-	1,495
Public works	-0-	6,496
Culture and recreation	-0-	6,367
Community and economic development	-0-	-0-
General government	-0-	19,170
Capital projects	-0-	-0-
Total disbursements	<u>-0-</u>	<u>33,528</u>
Excess (deficiency) of receipts over (under) disbursements	53	(1,022)
Other financing sources (uses):		
Operating transfers in	-0-	-0-
Operating transfers out	-0-	-0-
Net financing sources (uses)	<u>-0-</u>	<u>-0-</u>
Net change in cash balances	53	(1,022)
Cash balances beginning of year	<u>4,151</u>	<u>5,037</u>
Cash balances end year	\$ <u>4,204</u>	\$ <u>4,015</u>
 Cash Basis Fund Balances		
Restricted for other purposes	\$ <u>4,204</u>	\$ <u>4,015</u>
Total cash basis fund balances	\$ <u>4,204</u>	\$ <u>4,015</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 1

Special Revenue		Capital Projects 2 nd Street		Total
Insurance	Local Option Sales Tax			
\$ 20,124	\$ -0-	\$ -0-	\$ 52,683	
-0-	104,829	-0-	104,829	
-0-	-0-	34,963	34,963	
20,124	104,829	34,963	192,475	
-0-	-0-	-0-	1,495	
-0-	-0-	-0-	6,496	
-0-	-0-	-0-	6,367	
-0-	-0-	-0-	-0-	
20,630	-0-	-0-	39,800	
-0-	-0-	-0-	-0-	
20,630	-0-	-0-	54,158	
(506)	104,829	34,963	138,317	
475	-0-	-0-	475	
-0-	(104,829)	(34,963)	(139,792)	
475	(104,829)	(34,963)	(139,317)	
(31)	-0-	-0-	(1,000)	
31	-0-	-0-	9,219	
\$ -0-	\$ -0-	\$ -0-	\$ 8,219	
\$ -0-	\$ 0-	\$ -0-	\$ 8,219	
\$ -0-	\$ -0-	\$ -0-	\$ 8,219	

CITY OF UNDERWOOD
SCHEDULE OF INDEBTEDNESS

JUNE 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Street Improvement Note	November 20, 2001	4.75 %	\$ 170,000
Street Improvement Note	June 16, 2003	3.86 %	\$ 150,000
Fire Rescue Vehicle Note	February 28, 2003	4.27 %	\$ 100,000
Fire Equipment Note	June 21, 2007	4.90 %	\$ 174,000
Corporate Purpose Bonds	April 15, 2009	2.25 - 4.20 %	\$ 495,000
Sewer Revenue Notes			
Anticipation Project Note	October 27, 2010	2.25%	\$ 300,000
Sewer Revenue Note	January 31, 2012	3.15%	\$ 300,000

See Accompanying Independent Auditor's Report.

SCHEDULE 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 10,322	\$ -0-	\$ 10,322	\$ -0-	\$ 245	\$ -0-
34,816	-0-	17,099	17,717	1,124	26
17,793	-0-	5,757	12,036	398	259
106,019	-0-	19,014	87,005	5,062	355
435,000	-0-	50,000	385,000	15,375	1,188
<u>\$ 603,950</u>	<u>\$ -0-</u>	<u>\$ 102,192</u>	<u>\$ 501,758</u>	<u>\$ 22,204</u>	<u>\$ 1,828</u>
\$ 107,000	\$ 193,000	\$ 300,000	\$ -0-	\$ 3,471	\$ -0-
-0-	300,000	15,000	285,000	3,150	748
<u>\$ 107,000</u>	<u>\$ 493,000</u>	<u>\$ 315,000</u>	<u>\$ 285,000</u>	<u>\$ 6,621</u>	<u>\$ 748</u>

CITY OF UNDERWOOD
BOND AND NOTE MATURITIES
JUNE 30, 2012

General Obligation Bonds and Notes

Year Ending June 30,	Street Improvements Issued June 16, 2003		Ambulance Note Issued Feb. 28, 2003		Fire Truck Note Issued June 21, 2007	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2013	3.86%	\$ 17,717	4.27%	\$ 12,036	4.90%	\$ 20,056
2014	--	-0-	--	-0-	4.90%	21,051
2015	--	-0-	--	-0-	4.90%	22,095
2016	--	-0-	--	-0-	4.90%	23,803
2017	--	-0-	--	-0-	--	-0-
2018	--	-0-	--	-0-	--	-0-
2019	--	-0-	--	-0-	--	-0-
Total		\$ <u>17,717</u>		\$ <u>12,036</u>		\$ <u>87,005</u>

Year Ending June 30,	Essential Corporate Purpose Bonds Issued April 15, 2009		Total
	Interest Rate	Amount	
2013	2.25%	\$ 50,000	\$ 99,809
2014	3.05%	50,000	71,051
2015	3.05%	55,000	77,095
2016	3.50%	55,000	78,803
2017	3.50%	55,000	55,000
2018	4.20%	60,000	60,000
2019	4.20%	60,000	60,000
Total		\$ <u>385,000</u>	\$ <u>501,758</u>

See Accompanying Independent Auditor's Report.

Sewer Revenue Note

Year Ending June 30,	Sewer Revenue Note Issued January 31, 2012		Total
	Interest Rate	Amount	
2013	3.15%	\$ 30,000	\$ 30,000
2014	3.15%	30,000	30,000
2015	3.15%	30,000	30,000
2016	3.15%	30,000	30,000
2017	3.15%	30,000	30,000
2018	3.15%	30,000	30,000
2019	3.15%	30,000	30,000
2020	3.15%	30,000	30,000
2021	3.15%	30,000	30,000
2022	3.15%	15,000	15,000
Total		\$ <u>285,000</u>	\$ <u>285,000</u>

CITY OF UNDERWOOD

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION - ALL GOVERNMENTAL FUNDS

FOR THE LAST EIGHT YEARS

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Receipts:				
Property taxes	\$ 313,228	\$ 304,106	\$ 293,877	\$ 270,827
Tax increment financing	132,638	138,597	123,215	107,394
Other city taxes	104,829	83,453	70,550	90,339
License and permits	4,292	7,420	7,920	10,133
Use of money and property	778	1,459	1,592	6,600
Intergovernmental	210,675	176,971	156,597	391,438
Charges for service	21,858	29,557	14,424	16,255
Special assessments	631	-0-	80	-0-
Miscellaneous	10,270	4,604	14,845	35,613
Total	<u>\$ 799,199</u>	<u>\$ 746,167</u>	<u>\$ 683,100</u>	<u>\$ 928,599</u>
Disbursements:				
Operating:				
Public safety	\$ 85,024	\$ 159,372	\$ 244,484	\$ 48,252
Public works	169,873	137,970	114,943	95,392
Health and social services	-0-	-0-	-0-	-0-
Culture and recreation	24,391	22,980	28,358	22,519
Comm and economic dev	155,806	128,010	137,592	147,032
General government	147,998	144,403	129,953	126,105
Debt service	124,397	137,599	127,722	107,177
Capital projects	-0-	82,859	-0-	372,950
Total	<u>\$ 707,489</u>	<u>\$ 813,193</u>	<u>\$ 783,052</u>	<u>\$ 919,427</u>

See accompanying independent auditor's report.

SCHEDULE 4

	<u>2008</u>		<u>2007</u>		<u>2006</u>		<u>2005</u>
\$	256,042	\$	231,541	\$	212,017	\$	205,970
	105,459		112,347		76,287		98,565
	77,247		85,383		90,562		76,458
	14,064		5,840		7,936		8,683
	16,071		12,858		3,378		1,252
	203,803		154,660		129,724		148,400
	10,954		9,893		15,763		37,616
	461		-0-		15		168
	<u>3,946</u>		<u>20,544</u>		<u>28,412</u>		<u>10,762</u>
\$	<u>688,047</u>	\$	<u>633,066</u>	\$	<u>564,094</u>	\$	<u>587,874</u>

	63,655	\$	244,708	\$	165,080	\$	80,432
	90,412		41,769		61,710		96,443
	-0-		-0-		-0-		650
	15,818		22,324		12,380		23,735
	160,643		123,243		107,790		97,029
	122,462		116,766		126,730		112,466
	98,114		96,850		91,668		125,109
	<u>249,091</u>		<u>28,072</u>		<u>85,151</u>		<u>-0-</u>
\$	<u>800,195</u>	\$	<u>673,732</u>	\$	<u>650,509</u>	\$	<u>535,864</u>

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

MUXFELDT ASSOCIATES, CPA, P.C.

August 29, 2012

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARD

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To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood, Iowa as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated August 29, 2012. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Underwood's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Underwood's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified a certain deficiency in internal control over financial reporting I consider to be a material weakness.

Continued . . .

August 29, 2012

Page Two

To the Honorable Mayor and
Members of the City Council:

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Underwood's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency described in Part I of the accompanying Schedule of Findings as items I-A-12 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Underwood's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Underwood's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City of Underwood's responses, I did not audit the City of Underwood's responses and, accordingly, I express no opinion on them.

Continued . . .

August 29, 2012
Page Three

To the Honorable Mayor and
Members of the City Council

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Underwood and other parties to whom the City of Underwood may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Underwood during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Murphy Associates, CPA, P.C.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES

I-A-12 Segregation of Duties

Comment - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For example, the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all performed by the same person.

Recommendation - I realize that with one full time city clerk and a part time deputy clerk, a proper segregation of duties is challenging. However, City Council should monitor control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-12 Certified Budget - Disbursements during the year ended June 30, 2012, did not exceed the amounts budgeted.

II-B-12 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012**

Part II: Other Findings Related to Required Statutory Reporting (Continued):

II-D-12 Business Transactions - There were no business transactions between the City and City officials or employees for the year ended June 30, 2012.

II-E-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-12 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

II-G-12 Deposits and Investments - I noted no instance of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-12 Unsubstantiated Disbursements - It was noted that not all debit/credit card charges were substantiated.

Recommendation - Disbursements should be substantiated with appropriate documentation.

Response - Debit/credit card charges will be appropriately substantiated in the future.

Conclusion - Response accepted.

